



Credit Ratings and the Rating Process

Presented by:

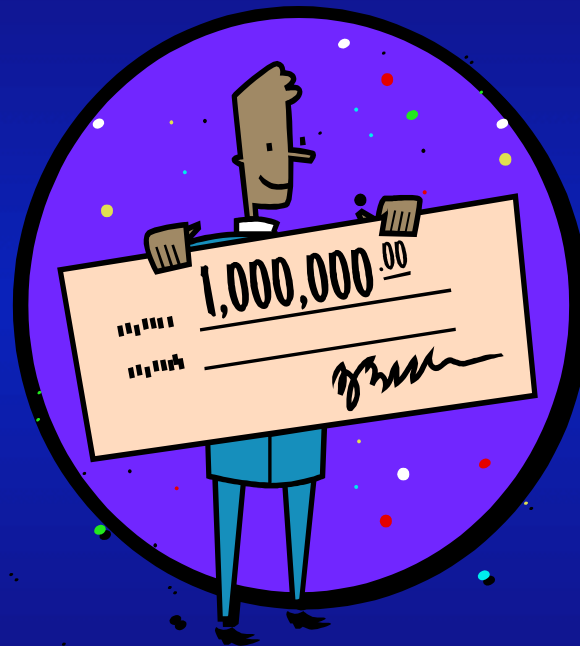
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Fitch Ratings

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What is a rating?

- Notation summarizing the likelihood of repayment for a specific debt obligation
- Letter category
- “+” and “-” specify placement within the category
- Band of credit quality



A rating is NOT:

- A judgment or statement regarding any aspect of public policy
- A political statement in favor of or against a particular person or administration
- A dictate of what should be done or how a matter should be handled

To rate or not to rate



- Increases investor acceptance
- Current economic environment
- Current capital market environment
- **BOTTOM LINE:** Lower interest cost!

The Rating Process

- The Beginning: Decision and documents
- The Middle: Let's Talk
- The End: Rating committee, communication and dissemination
- Appeal process, if necessary

Other Rating Agency Products (at least at Fitch)

- “Look See”
- Credit Opinion

Elements of Tax-supported Credit

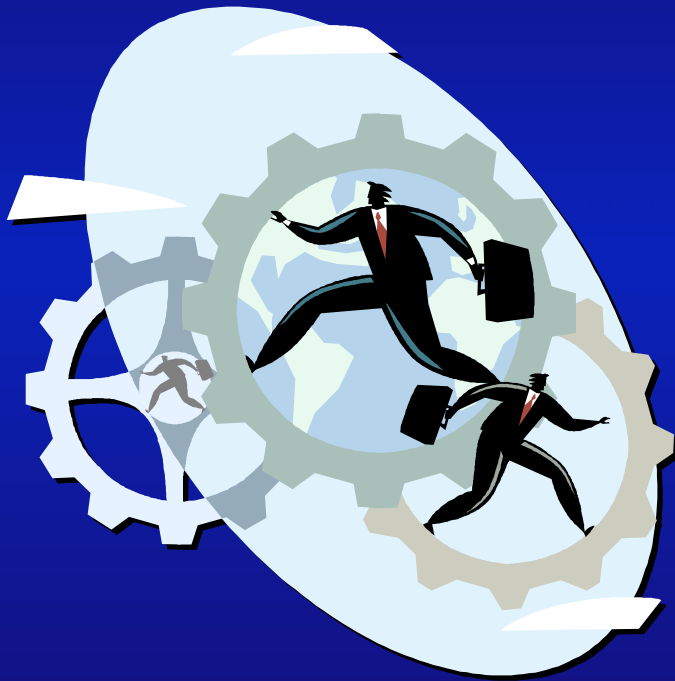
- Debt and capital plan



Elements of Tax-supported Credit

Debt and capital plan

➤ Economic factors



Elements of Tax-supported Credit

Debt and capital plan

Economic factors

➤ Financial factors



Elements of Tax-supported Debt



Debt and capital plan

Economic factors

Financial factors

➤ Management

Management, management, management!

- Importance revealed through Fitch's default study
- Written, adopted policies
- Policy monitoring, implementation
- Live examples

Management Best Practices- Debt

- Affordability guidelines
- Pay-as-you-go practices
- Amortization considerations
- Multi-year CIP
- Operating cost considered
- Contingency planning



Management Practices - Finance



- Fund balance/reserve goals
- Multi-year forecasting
- Mid-year monitoring and budget adjustment
- Use of non-recurring revenue
- Contingency planning

Management Best Practices – Also Think About:

- Taxpayer/voter communication
- Labor relations
- Intergovernmental relations/cooperation
- Public/private partnerships



Additional Credit Elements for Lease Financings

- When is a bond not debt?
- Willingness to pay
 - Project essentiality
 - Legal structure - Covenant to budget and appropriate
 - Evidence of support
 - Reliance on lease financing
- Construction and completion risk
- Abatement

Rating Tip #1



Timing is
everything
(well almost)

Rating Tip #2

Honesty is the
best policy



Rating Tip #3



Seek and ye
shall find (ask
the analyst)



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